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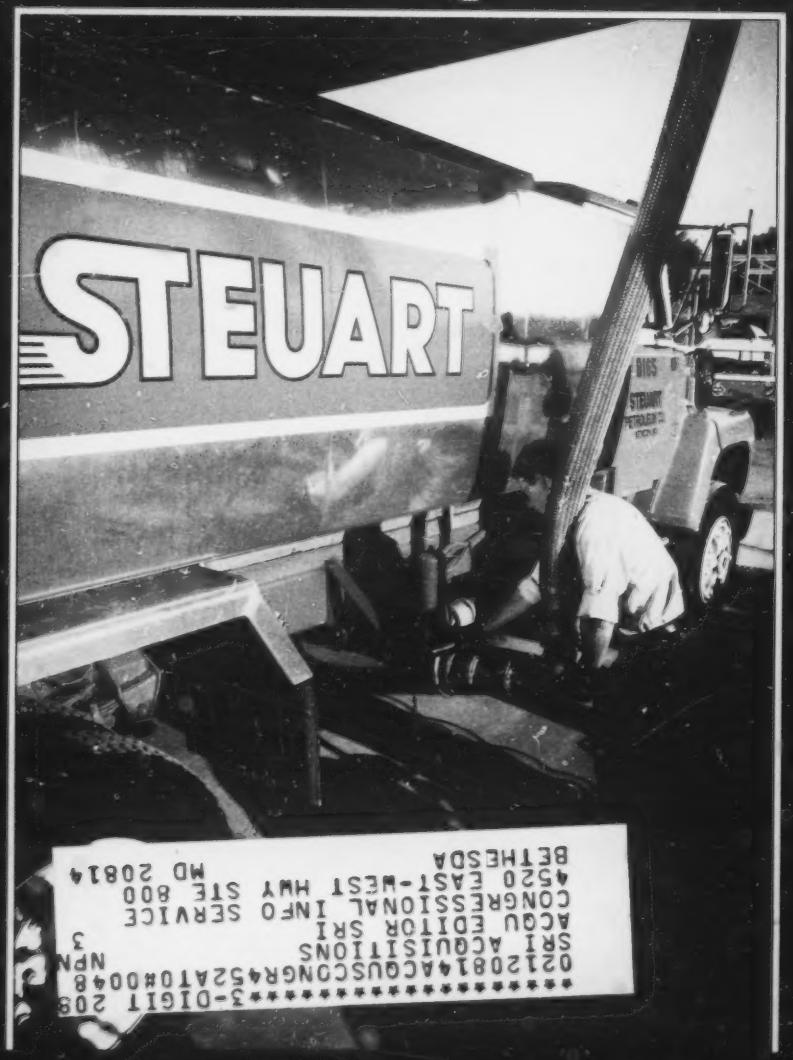
What to Consider About Diversification
How Truck Stops Profit in Today's Market
How Apex Oil Succeeded—Then Folded

NPN

National Petroleum News

How Steuart Petroleum Plans To Keep Growing



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Editor's Viewpoint

Independent marketers have been the major innovative force in this industry and were among the first to recognize the need for diversifying into new high margin profit centers to generate increased sales and earnings and decrease vulnerability to erratic changes in the market. Diversification remains important and most jobbers are either already involved in this process and or are becoming more involved **(See page 42).**

Developing these multiple profit streams today, however, requires more thought and caution than in the past. What worked well in the past may not work so well now and in the future. And the cost of certain forms of diversification has escalated, in some cases dramatically, putting smaller jobbers in particular at a disadvantage.

Convenience stores are an example. They have been one of the most common and successful forms of diversification and, for the most part, remain an excellent vehicle for creating a good profit stream independent of gasoline. But like almost any other good idea, it attracted more and more attention and there are signs that the C-store market is becoming saturated in certain areas. Price cutting has already begun in some markets and there are indications that a shake out may be in the cards.

At the same time, the investment required for C-stores has risen substantially. Not only are many C-stores larger and offering a wider array of merchandise, but the price of land at prime locations has increased dramatically. Some large chains and independents are spending as much as $750,000 to $1-million to build large C-store/fast food outlets. One company reportedly paid $1.3-million just for the land at a prime location.

Fast lubes are another case in point. Although jobbers can still set up a one-bay fast lube facility with support packages from some suppliers for a relatively small cost, the investment for some new stand alone facilities can run from one-half million to $1-million or more. Fast lube franchises can also be expensive depending on cost of equipment, initial and ongoing franchise fees and support packages. And again, the market for fast lubes is bloated in some areas, although there is plenty of potential in others.

Even video rentals have lost some appeal. Investment cost has not, for the most part, increased greatly. But the competition has. In many major metropolitan areas, video stores have proliferated to a point where there are two or three on the same block. Prices, and therefore profits and return on investment, have dropped, and even some large chains are approaching this market with far more caution than in the past.

—Frank M. Victoria

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Backed by overseas capital, Steuart Petroleum Co. is hedging against the soft resid market and shopping for new retail marketing opportunities anywhere East of the Mississippi. **Page 30**

Like everywhere else in the petroleum business, fierce competition rules the day in the truck stop market. Savvy operators are turning to non-fuel services to build alternate profit streams. **Page 36**

Marketers are diversifying into C-stores, car washes, quick turnover auto services and other specialties to boost revenues and profits. But diversification can be expensive, too. **Page 42**

• TRENDS

'Buy American' Meaning Has Changed Abroad

Coined as a patriotic barricade against the tidal wave of foreign products which has invaded the U.S. marketplaces, "Buy American" is a promotional slogan that's no longer a hostile catch phrase overseas.

To the contrary, it is emerging from the international shadows as an acceptable, latter-day concept that's 180 degrees removed from what the originators had in mind when they sought to persuade consumers to buy home-grown products instead of those from half a world away.

But the slogan has obviously taken a new meaning for some of the major oil producing countries. To them, it doesn't mean buying American products, per se; it means buying bigger and better things, such as equity interests in U.S. refining and marketing facilities which will allow them to lock up crude oil outlets and at the same time assure themselves of leverage and clout all the way from their backyard wellheads to dispenser pumps and oil burner tanks in the good old U.S. of A.

Foreign crude oil and products have never had too many problems in finding "homes" in U.S. marketplaces. But once on these shores, the crudes were processed in American refineries and the products were distributed via American outlets. Even Shell and BP, which are British-owned, function in this manner.

But that has changed and the trend will apparently continue. Even some of the big boys are lining up now—both the oil countries and the U.S. oil companies.

Beleaguered Texaco, for example, facing as it is billions of dollars in payoffs to extricate itself from a Chapter 11 bankruptcy, has verified that it is negotiating with foreign interests to sell half of its refining facilities in the U.S.

Saudi Arabia has confirmed that it's not only negotiating with Texaco but implies that other members of the Aramco partnership (formerly the Arabian American Oil Co.) i.e., Chevron, Exxon and Mobil may be amenable to private chats too. And Kuwait, which long has wanted a firm foothold in U.S. marketplaces has said that it had talked to Texaco some time ago but is ready and willing to reopen the discussions at any time.

Meanwhile, Nigeria is said to be talking to Sun, Hill Petroleum, Mapco and smaller Crown Central Petroleum, of Baltimore, Md. Coastal Corp., which has about 600,020 b/d of refining capacity and an ambitious program to expand its East Coast marketplaces, has let it be known that it's willing to talk turkey to possible purchasers of 50% interest.

Money, of course, is at the bottom of it all. One West Coast energy forecaster recently told the Wall Street Journal that Saudi Arabia—with a 50% ownership of substantial U.S. refining facilities in hand—could move its crude to East Coast or Gulf refineries, thence profitably to the streets for maybe 40¢ a gal. Crude would have to drop to the $10 bbl. again to enable others to do likewise. Not a pleasant prospect for oilmen. Remember what happened in 1986 with $10 crude?

What's going on is not unique to only the oil industry, however. More and more American manufacturing and service firms are selling themselves or equity interests in their operations to foreigners. W.T. Grimm, a Chicago-based research firm that specializes in tracking such acquisitions, was quoted recently as saying that foreign purchases of U.S. assets rose more than 50% in 1987 to $38-billion. The "Buy American" trend is expected to continue throughout 1988, so long as the American dollar remains weak and the strong German marks and Japanese yens dominate the international exchanges. Cited as a specific example was Firestone's recent deal to sell most of its tire operations to a Japanese competitor.

Given the nature of the times, could it be that by the year 2000 the only 100% native-born and controlled refiners and marketers left in the U.S. would be those that are too small to be worth fighting over? —*J. Richard Shaner*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

JANUARY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.947	$0.881	$0.933	$1.015
Regions				
Northeast	1.002	.913	.968	1.136
North Central	.934	.889	.931	1.060
South	.942	.862	.925	1.086
West	.926	.884	.917	1.084

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	2/26/88	2/27/88
Gasoline (Total)	238,876	252,918
Gasoline (Unleaded)*	147,281	139,789
Jet Kerosine	37,725	41,310
Distillates	110,227	127,101
Residual	45,646	38,036

** Included in gasoline total.*
Source: American Petroleum Institute.

Texaco Puts Pennzoil Suit Behind, Launches New Marketing Campaign

After agreeing to pay Pennzoil $3-billion to settle one of the toughest and most exhausting legal battles in history, Texaco has embarked on an intensive campaign to beef up its jobber and dealer relations and rejuvenate its marketing programs.

At a series of eight meetings across the country in February and March, Texaco affirmed its commitment to its jobbers and dealers, declared its dedication to regain marketing leadership, and announced programs designed to help its resellers compete more effectively in a changing marketplace.

These were not ordinary meetings. They were wining and dining extravaganzas for jobbers and dealers—and their spouses—with professional staging, television cameras, laser displays, and other trimmings.

Seven dealer meetings, each lasting a half day and an evening, were held in Seattle, Las Vegas, New Orleans, Orlando, Atlantic City, Washington DC, and Dallas, with an estimated 3,000 attending over all.

The first national convention ever held for jobbers spanned three days in Las Vegas, with 2,000 attending. Heading the speakers' list were chief executive officer J. W. Kinnear, president J. L. Dunlap, and marketing vice president Glenn Tilton.

Acknowledging that Texaco marketers might be wondering what effect the payment of $3-billion might have on the company, Albert L. Derden, retail services manager, said in an interview:

"We are showing our dealers we are prepared to put this (Pennzoil suit) behind us . . ., that this is not slowing us down as far as the marketing organization is concerned, that we anticipate in early April coming out from under Chapter 11, and that we have been in the past and will continue to be a very vital part of this nation's petroleum industry."

Gene McGraw, wholesale manager, said in an interview, "Our jobbers have been extremely supportive through these turbulent times with the Pennzoil situation, and we wanted to recognize them for those efforts. . . .

"This is a rededication to our jobbers, asking them to improve their businesses, their image and ours, in a mutuality of interest, so we can return to being the best in this industry."

Contrary to some trade speculation (see page 20), McGraw said Texaco did not lose a single jobber on account of the Pennzoil situation, and Derden said there was no loss of market share attributable to that.

Both emphasized that refining and marketing were set up as a separate corporation in 1984 and were not affected by the Pennzoil proceedings.

Mini Markets Are in

For both jobbers and dealers, Texaco embarked on a national program to convert salesrooms of its automotive-service stations to mini markets as a means of increasing gasoline sales and improving station profits.

For its 2,400 direct-delivered stations and 13,600 indirect (jobber) stations, Texaco is urging full-service marketers at approved locations to invest $16,000-$17,000, plus inventory, to convert salesrooms to convenience stores. Texaco would provide four different conversion designs, construction plans, suggested inventories, and so forth, plus leasing of dispensing machines.

Texaco believes the little stores should generate from $3,000 per month to as high as $10,000 per month in revenues. "Even in the $3,000-$4,000 range, with a 30% margin on the products sold, the retailer has a return on his investment of anywhere from 30-35% and higher," Derden explained.

He said these mini-market conversions would help stop the loss of customers "to the big gas bars with food marts" while service stations remain in the full-service car business.

What's for Jobbers

Texaco announced a number of new support programs for jobbers, in McGraw's words, "in order to assist them in doing the things we think are necessary to return Texaco to its prominent position in the marketplace and the leader we once were, the best in the industry."

Among the programs are building incentives for new facilities, complete tear down and rebuilds, partial rehabilitations, and for the new Express Lube program. In addition, the company provides quantity discounts and other incentives for lubricant sales.

In what's called the "Alliance for Prog-

(Continued on page 27)

New Forecast Sees Improved Demand But Weaker Prices

Federal forecasters took another look at things in the first quarter and while they predicted that gasoline demand may be a bit healthier in 1988 than had been expected, retail prices will plod along in the doldrums through mid-1989.

They boosted their gasoline demand projections about 100,000 b/d, predicting they will average 7.24-million b/d for the year. Third-quarter demand may be up as much as 150,000 b/d over the forecast they made last winter [*NPN*—Jan. '88, p36], mostly because lower prices will probably encourage more warm-weather driving.

Pump prices will be in the '90s throughout the year and will wind up averaging about 94¢ a gal. This will be 2¢ a gal. under the 1987 average and 5¢ a gal. under the rosier prediction made last winter. Diesel fuel will share a similar shortfall, the Feds said.

The buck-a-gallon gasoline average,

(Continued on page 26)

Forecast, Continued . . .

which had been expected last fall and then again in the second and third quarters of this year, has been put on hold again until next spring at the earliest. However, the swing to unleaded gasoline continues unabated. Unleaded gasoline consumption will be at the 80% level this summer and the 85% level in mid-1989. This parallels earlier forecasts that demand for leaded gasoline will erode to the 10%-12% range by early 1990, less than two years from now.

Crude Prices Weaken

Blame the sagging crude oil prices for the poor showings in product prices. The crude prices failed to rise in the fourth quarter of 1987, as had been anticipated, dropping as low as $16 bbl. The outlook is they'll continue to waffle in 1988, although a bit firmer in the spring and summer months, maybe $19 bbl. If things should take a turn for the worst, however, a drop to $12 bbl. to $15 bbl. would upend the marketplaces again as did the collapse of 1986.

Distillate heating oil prices won't vary too much in 1988 and 1989, with wholesale levels remaining about the same as projected previously but with retails up about 2¢ a gal. The retails are about 1¢ less than had been predicted last winter.

No big swings or changes in margins are expected at this time. They'll continue to run about the same as in 1986 and 1987, the federal experts say.

The New Box Score: Demand Improves, Prices Don't

	PROJECTIONS						
	1989		1988				
	1Q	2Q	1Q	2Q	3Q	4Q	Full Year
DEMAND (million b/d)							
Motor Gasoline	6.92	7.45	6.91	7.44	7.41	7.22	7.24
Leaded	1.27	1.16	1.51	1.56	1.49	1.39	1.49
Unleaded	5.65	6.29	5.40	5.88	5.92	5.83	5.76
% Unleaded	82%	84%	78%	79%	80%	81%	80%
Distillates	3.49	2.88	3.46	2.82	2.65	3.17	3.02
Residual	1.42	1.08	1.57	1.12	1.04	1.11	1.21
Total U.S. (a)	17.02	16.46	17.05	16.29	16.38	16.92	16.66
PRICES (per gal.) (b)							
Motor Gasoline (c)	.97	1.01	.92	.93	.96	.95	.94
No. 2 Diesel	.98	.99	.92	.93	.95	.96	.94
No. Heating Oil							
Wholesale	.57	.56	.50	.51	.53	.54	.52
Retail	.89	.86	.82	.79	.80	.84	.82
Residual (d)	.45	.44	.39	.40	.42	.44	.41

		HISTORY				
		1987				
	% Chng 88 v 87	1Q	2Q	3Q	4Q	Full Year
DEMAND (million b/d)						
Motor Gasoline	1.1%	6.70	7.44	7.35	7.12	7.16
Leaded	(13.9)	1.73	1.89	1.73	1.55	1.73
Unleaded	6.1	4.97	5.55	5.62	5.57	5.43
% Unleaded		74%	75%	77%	78%	76%
Distillates	2.0	3.22	2.82	2.69	3.13	2.96
Residual	(2.4)	1.38	1.16	1.25	1.17	1.24
Total U.S. (a)	0.8	16.34	16.43	16.62	16.68	16.52
PRICES (per gal.) (b)						
Motor Gasoline (c)	(2.1)	.90	.95	.99	.98	.96
No. 2 Diesel	2.2	.89	.91	.95	.94	.92
No. 2 Heating Oil						
Wholesale	0.0	.50	.51	.54	.55	.52
Retail	2.5	.79	.78	.78	.83	.80
Residual (d)	(2.4)	.41	.43	.44	.41	.42

(a) Includes all oils; (b) Includes federal and state taxes, except No. 2 heating oil; (c) Average prices for all grades and services; (d) Average prices for all grades of sulfur.

Source: Energy Information Administration, Short-Term Energy Outlook, dated January 1988, published early February.